

Schedule 1  
Page 1Lockheed Aircraft Corporation  
California Division  
Burbank, California  
Contract SP-1915AUDITOR'S COMMENTS ON COSTS QUESTIONED

1. 1958 Overhead. The auditor questions the propriety of the amounts included in the contractor's proposal for engineering overhead, factory overhead and contract and administrative expenses for the year 1958. In the following summary the overhead rates and amounts proposed by the contractor are shown in comparison with those considered by the auditor to be acceptable:

	Labor Hours	<u>Proposed</u>		<u>Auditor's Recommendation</u>	
		<u>Rate Per Hour</u>	<u>Amount</u>	<u>Rate Per Hour</u>	<u>Amount</u>
Engineering	110,780	\$2.7655	\$306,362	\$2.7355	\$303,039
Factory	2,233	3.9617	8,845	3.7791	8,437
C & A	113,013	.8050	90,975	.7169	81,119
Accepted					\$392,595
Questioned					13,587
Total			<u>\$406,182</u>		<u>\$406,182</u>

a. Overhead rates recommended for acceptance were used in a recent negotiation under Air Force contract AF04(606)4760 and were based on the contractor's statement of actual overhead expense for the year 1958, which included the factors of usage, or wear depreciation, and management incentive compensation. At the time of the negotiation referred to, and at the date of this report, final determination of overhead disallowances for the year 1958 had not been made. The factors of disallowance used in negotiating the rates were established by taking the same percentage of disallowance as was applicable to overhead expenses of the year 1957. The following tabulation shows the computation of the rates proposed by the contractor and of those recommended by the auditor:

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Page 2Engineering overhead:Proposed by  
ContractorRecommended by  
AuditorGross rates  
Disallowances

Net Rate

Factory overhead:Gross rates  
Disallowances

Net rate

\*Contractor error --

C & A:Gross rates  
Disallowances

Net Rate

b. Comparison of the elements above shows that the differences between the proposed rates and the auditor's recommended rates are largely due to the higher gross rates used by the contractor. As indicated in subparagraph a, the gross rates used in the auditor's computation are those resulting from overhead expenses actually incurred during the entire year 1958, as shown by the contractor's records.

2. Costs Questioned for Consideration by the Contracting Officer.

a. Flight Test Bonus. Included in the labor costs proposed by the contractor is the amount of \$51,112 for flight test bonus. Records of the contractor show that the bonus payments were attributable to the following phases of work:

Type of WorkEngineering Work  
Authorization

Thermos study

Engineering flight test

344,355

Flight test "C" equipment

Flight test "B" equipment

Thermos 6 units

Mod. 350

Mod. 348

Other modifications

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Total

1024

7517

7522

7528

7529

7532

7539

7544

7565

7568

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(1) For the same reasons as were fully explained in Schedule 8 of the auditor's report on Contract SP-1913, the auditor does not have sufficient knowledge regarding the tests conducted to determine the acceptability of the costs; however, he has examined the flight diagrams and charts to determine that the bonus payments were computed in the prescribed manner.

b. Accommodation Purchases and Additional Ship Parts.

(1) The contractor's proposal includes the amount of \$24,561 for material cost classified as accommodation purchases and the amount of \$20,713 for materials shown to have been delivered as additional ship parts or used in the fabrication and assembly thereof. The auditor has made tests which show that the cost value of items described in shipping documents and forms DD 250 contained in the contractor's file will support the amounts stated above and the documents mentioned indicate that the items were delivered to the customer. The auditor has made no determination as to the validity of the customer's requests to furnish the items or of the customer's receipts therefor. The amounts are referred for consideration of the Contracting Officer for the same reason as was fully explained in Schedule 10 of the auditor's report on Contract SP-1913.

(2) Recommendation.

To assure that all items charged to the contracts have been delivered to the customer, the forms DD 250 received by the customer should be compared with those contained in the contractor's files which show the valuations of the items as verified by the auditor's tests. Validity of the customer's receipts for the property should also be established.